02 May 2024

BSE Limited	National Stock Exchange of India Ltd
PJ Towers	Exchange Plaza,
Dalal Street	Bandra-Kurla Complex, Bandra (E)
Mumbai 400001	Mumbai-400 051
Scrip Code: 532175	Scrip Code: CYIENT

Dear Sir,

Sub: Transcript of the Earnings Conference Call

Please find enclosed the transcript of the Q4 FY24 earnings conference call conducted after the meeting of Board of Directors held on 25 April 2024.

This is for your information and records.

Thanking you

For Cyient Limited

Ravi Kumar Nukala Digitally signed by Ravi Kumar Nukala Date: 2024.05.02 18:26:38 +05'30'

Ravikumar Nukala
Dy. Company Secretary

"Cyient Limited

Q4 FY24 Earnings Conference Call"

April 25, 2024

MANAGEMENT: MR. KRISHNA BODANAPU – EXECUTIVE VICE CHAIRMAN AND MANAGING DIRECTOR – CYIENT LIMITED
MR. KARTHIKEYAN NATARAJAN – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – CYIENT LIMITED
MR. PRABHAKAR ATLA – PRESIDENT AND CHIEF FINANCIAL OFFICER – CYIENT LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Cyient Limited Q4 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and anyone who wishes to ask a question may enter star and one on their touchtone phone. To remove yourself from the queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Executive Vice Chairman and Managing Director of Cyient Limited, Mr. Krishna Bodanapu. Thank you, and over to you, sir.

Krishna Bodanapu: Thank you very much, and good evening, ladies, and gentlemen, and welcome to Cyient Limited's Earnings Call for the Fourth Quarter of Financial Year 2024. I'm Krishna Bodanapu - Executive Vice Chairman and Managing Director. Present with me on this call are Mr. Karthik Natarajan - Executive Director, and CEO; and Mr. Prabhakar Atla - President, and CFO.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainty. A detailed statement in this regard is available in our investor update, which has been e-mailed to you and is also posted on our website. This call will be accompanied with an earnings presentation and the details of those have already been shared with you.

If I may take a minute to quickly highlight some of the key achievements for this quarter. We signed a strategic partnership with Deutsche Aircraft Group or DAG, which will include detailed design for manufacturing of the rear fuselage for the new 40-seater aircraft, the turboprop aircraft that DAG is now building. We're excited for this partnership to support the development of this new aircraft, which is a once-in-a-lifetime new development that is coming up. And our involvement underscores our commitment and our capability and support rendered in delivering innovative engineering services in the aerospace sector, which as you know, is core to our organization and core to our strength. Our expertise in this area will play a critical role in the development of this new aircraft. And it's also very gratifying to hear from them that much of this aircraft will be designed and manufactured in India before its finally system integrated in Germany. So that's a very key win that we're very proud of.

We also signed a new long-term relationship with Airbus where we will partner for the CIDS or the Cabin Information Display System. This is a 15-year contract. So, it's a very long-term contract. And Airbus is moving towards intelligent and digital cabin management they've chosen us as a partner based on our capability and ability to generate intelligent engineering solutions. And this will be above and beyond our current engagement with Airbus, which is more in the traditional engineering hardware, software development phase.

We have also been ranked as a leader and a noteworthy player for the overall ER&D in North America and Europe by Zinnov Zones for ER&D services. We were recognized for our innovation and solution development in a range of industries, spanning aerospace, automotive, semiconductor and telehealth, among others. In a significant achievement, we also debuted in the data analytics and AI with a leadership ranking. And this recognition is another great testament because as many of you know, it has a very comprehensive assessment and ranking. And it's a great testament of our capabilities and our industrial expertise and, of course, the innovation that we bring to the table.

I'm also happy to announce a final dividend of INR18 per share which the Board has approved and will recommend to the shareholders for their approval. It's INR18 which brings the total to INR30 per share, which is the highest dividend that we have ever paid.

So overall, things look quite good for the future. Of course, we will talk about the Q4 numbers and give you a bit of background to the Q4 numbers, but more importantly, to give you the view for how the next financial year will evolve and also give you some details behind what gives us the confidence that we will continue to execute at an excellent level. With this, I'll hand over this call to Prabhakar, who will take you through the financial performance for the quarter.

Prabhakar Atla: Thank you, Krishna. Hello, everyone. I hope you're all doing well. Thank you very much for your time today and for your kind participation in the call today. Given that this is the end of the year earnings call, we will present two types of data – one for the quarter ending March 2024, which is essentially Q4 FY24 and the other for full year FY24, and the focus of this call will be Cyient DET. Just so that we have enough time for Q&A, I'll only call out the key numbers on each page instead of a full and detailed commentary. The nomenclature of our businesses remains the same as in the previous call.

The page in front of you presents the key metrics for DET for Q4 FY24 in dashboard format. The Q4 FY24-dollar revenue for DET stood at $179.3 million, a Q-o-Q degrowth of 0.5% in constant currency and a Y-o-Y growth of 1.8% in constant currency. In rupee terms, this revenue stood at INR1,489 crores with a Q-o-Q degrowth of 0.1% and Y-o-Y growth of 2.8%. The Q4 revenue was lower than our expectations and this is because the Aerospace business after seven continuous quarters of growth had flattish quarter in Q4 and the recovery in communications business was backended during the quarter. Karthik will cover these movements in more detail in the later part of the call, but I would like to underline that in our view, the underlying medium and long-term opportunities and momentum in DET space remains quite solid and very much intact.

The Q4 FY24 DET EBIT margin stood at 16%, up by 90 bps year-on-year. And as you will notice, there is no normalization done in this quarter, in line with the commentary provided in the previous quarter. And also, you will see that we were able to hold the EBIT line despite the Q-o-Q movement in revenue. While this then makes it the fourth consecutive quarter of 16% EBIT for DET, I'd like to mention that going forward, we intend to sharpen our focus on further strengthening our investments towards growth.

The Q4 FY24 PAT for DET stands at INR173 crores translating into a growth of 9.1% year-on-year, and this also translates into an EPS of INR15.79 for Cyient DET. The Q4 FY24 DET FCF stood at INR232 crores, our best ever quarter with a growth of 25.6% year-on-year. And in the next chart, you'll also see that our full year FCF has significantly improved year-on-year.

The next chart presents the full year numbers for Cyient DET, the full year FY24 numbers. The DET FY24-dollar revenue stood at $713.9 million, a year-on-year growth of 12.6% in constant currency. And in rupee terms, this revenue stood at INR5,911 crores, with a Y-o-Y growth of 16%. Given that the Q4 revenue was lower than our initial expectations, the full year revenue performance was also below the previously guided range, while we've endeavoured to ensure that the margin momentum and the earnings trajectory are intact.

The DET FY24 EBIT margin stood at 16.1%, up by 246 bps year-on-year. And as we discussed in detail in the previous earnings call and our Investor Day, the significant expansion was made possible due to the number of focused initiatives we executed through FY23 and FY24. We will now endeavour to maintain this as a platform for FY25 with a sharpened focus of investing further into growth. The DET FY24 normalized PAT stands at INR689 crores translating to the growth of 31.6% year-on-year, and this also translates into an EPS of INR62.84 for Cyient DET, on a normalized basis. The DET FY24 free cash flow stood at INR754 crores, our best ever, a significant improvement of 71% year-on-year.

Before I close the full year chart, I'd like to draw your attention to the balanced progression of various metrics through the year. With the revenue growth of 12.6% in constant currency, EBIT margin expanded by 246 bps year-on-year, and earnings grew by 31% year-on-year. While retaining focus on free cash flow.

Moderator: Ladies and gentlemen, please stay connected. The line for the management has dropped, we'll reconnect the line quickly. Thank you. Ladies and gentlemen, we have the management line reconnected. You can go ahead, sir.

Prabhakar Atla: My apologies for the drop-off. I'd like to continue where we left. Before it was the full year chart for DET, I'd like to draw your attention for the balance progression of various metrics through the year, with the revenue growth of 12.6% in constant currency. EBIT margin expanded by 246 bps year-on-year, and earnings grew by 31% year-on-year. While retaining to focus on FCF, which also improved by 71% year-on-year. We believe that this is a good demonstration with a balanced performance, especially in the face of what was an uncertain and challenging operating environment in FY24.

The group numbers that you see in the following page, are a combination of all 3 segments we have, including Cyient DLM. Group revenue stood at INR1,861 crores for Q4 FY24, which is a growth of 6.2% year-on-year in constant currency with an EBIT growth of 7.4% year-on-year and PAT growth of 7.5% year-on-year. With the recovery of FCF in DLM business, which we have commented upon in the previous call, you will also see that the Q-o-Q movement in FCF is very significant with a year-on-year growth of 45%.

Now in the next page, for a quick look at the full year numbers for the group. FY24 was a very interesting and a very exciting year for Cyient as a group. This year started making clear choices of who we want to be, where we want to play and how we execute our strategy. Some of the important milestones for us around this chosen path, as you all know, are one, the DLM divestiture; two, the development of the balanced portfolio for DET business; three, conscious focus on margin improvement; and four, focusing on investing into future growth. Therefore, for us, FY24 group performance in some sense was a testing ground, a testimony and perhaps we have the trajectory of our long-term approach.

As you can see from the numbers on this page, group revenue for FY24 stood at $863 million, a growth of 15.6% year-on-year in constant currency driven by balanced growth across our portfolio of DET and DLM. This is the highest ever revenue for the group. And while at that, the group EBIT stood at 14.5% with a healthy expansion of 173 bps year-on-year, which is the highest EBIT we've had for the group for the last 10 years. Group PAT stood at INR735 crores, representing the growth of 30% year-on-year, and this is the highest ever PAT for the group. The FCF also has increased significantly by 32.6% year-on-year. While these are objective metrics, we also have sharpened our focus on building the longer-term sustainable core to our business, especially in the areas of ESG and financial discipline, which we will talk a bit more about in the next page.

The next page presents the progress we are making along three important dimensions of our business and much of this commentary is specific to DET. The first is on ESG. As you all know, being a responsible corporate business, has been the guiding principle of business philosophy since our inception 33 years ago. Our social consciousness has always been an integral part of our purpose and has played an important role in how we shape our business and our culture. The Dow Jones Sustainability Index, DJSI as it is called, as you all know, is a highly trusted and a very comprehensive index that captures the ESG focus of various organizations across the globe. We're happy to report that Cyient score this year in this index stood at 72 and within that, we were in the industry best quartile on the social front. This score of 72 is also an improvement over the score of 66 we had last year. And that last year was also the first year we were rated under this index. We also continue to focus on our passion to support education of underprivileged children with special focus on girl child education and empowerment. We are very happy and if I may say, we are also very proud to report that we now support over 21,000 underprivileged children their education endeavours, and we are looking forward to welcome some of them into our future workforce. A more detailed report on Cyient ESG initiative and the progress we made has already been published and made available on our website, and I would like to invite you all to go through this.

The second dimension, as you can see from this chart, we will focus on free cash flow. We've already talked about it in previous pages, especially on the improvement. So, I'll not comment further on this, except to say that cash generation is and will continue to remain a key focus area for us going forward.

I will try to spend a bit more time on the DE ratio improvement year-on-year. The DET DE ratio, which was 0.24% at the end of FY23 has now improved to 0.12% at the end of FY24. The DET debt position, which was $94 million at end of FY23, now stands at $54 million at the end FY24. This was made possible since we retired about $40 million of debt in FY24, and we have leveraged our focus on cash generation, which we talked about earlier to retire debt proactively. And we will continue to focus on this in FY25 as well. We're also very happy to announce a final dividend of INR18 per share, which translates to full year dividend of INR30 per share. With this, I would like to thank you again for your time and for all your cheer and support as we navigated an interesting and equally challenging FY24. We look forward to your continued support and your engagement, and I do hope that we have earned the privilege of your time and your attention. With this, I'll hand over to Karthik for a more detailed commentary on DET performance.

Karthikeyan Natarajan: Thank you, Prabhakar. Hope all of you are doing well. Hope you can hear me. On top of what we started working for the last 2.5 years about getting our Digital and Technology solutions team in place and our ability to really have more customer conversations around the transformations that they are going through and how we think we are able to bring some of the solutions, which are cutting edge. We inaugurated our customer experience center during last quarter, and that's one of the key milestones for us. And moving forward, like what Krishna talked about, as we bought in partnerships in Aerospace, with Airbus and Deutsche Aircraft and all the intelligent connected cabin platform development as well as supporting one of the new aircraft platforms. And also, happy to share the 2 large deals that we have been able to deliver in Q4 on top of the line that we delivered for Q4, overall.

I just want to highlight on the 2 of them, one is about the digital aftermarket platform, mapping the customer journey and this is with one of our top customers, and this is going to be run over the next 5 years, and it's a very interesting project that would really establish us as the digital engineering leaders in this segment, and we would also be able to take some of this offering to the entire set of customers that we operate in today.

And also, the second deal that I would like to highlight is about next-generation intelligent smart meter which has edge compute platform, and we will build the complete SoC and the software that goes around it. This is one of the end-to-end deals that we have been engaged with the customer for the last 6 months, and we have been able to close on this deal last quarter.

On back of what we have seen in the entire 12 months and the growth was led by Aerospace Sustainability and Automotive. And we are pleased to note that we have been able to see the growth of 12.6% year-on-year constant currency growth and also some of the investments that we started making are starting to play out. Also happy to report about 1,000-plus leaders who have been certified on generative AI and this is one of the key initiatives we started working for the last 6 months. And we have also engaged some of our key decision makers and happy to share that 60% of our key decision makers, which is from top 40 customers who see Cyient as their strategic and advisory partner in their transformation journey that they are likely to take for the next 5 to 10 years.

So, with that and quick view on the BU performance. As you can see from the chart, I'm going from left to right, I'll focus on the constant currency column and transportation has degrown by about minus 1.5% on the back of the challenging rail vertical that we have seen for the last few quarters. And connectivity has shown minus 2.3% degrowth at $40.7 million and sustainability at $54.1 million, which has grown about 0.7% quarter-on-quarter. And this is eighth consecutive quarter of growth as far as sustainability and vertical is concerned. New growth areas, which has not done well in the initial part of the year has come back to growth. We hope that we will continue to have the momentum for the rest of the fiscal 25.

And if you translate this at the DET level at $179.3 million, it's about minus 0.5% constant currency growth. And if we translate into year-on-year, this translates into 1.8% growth, a strong growth delivered from sustainability vertical at 19.3% and transport grew by 2.1%, while connectivity and new growth areas have declined year-on-year.

We also have secured orders worth of $227.8 million in Q4, which is reported numbers at 7.1% year-on-year growth. Like-to-like, this is about minus 6.2%. And we also won about 9 large deals worth about $197.6 million in Q4. This is one of the highest ever large deals that we booked in one quarter.

Moving on again for the full year. And we have seen Transportation, which ended up at $216 million. We've shown a growth of 14.5% in constant currency year-on-year. Connectivity which has been challenged in fiscal 24 has ended up with $169 million with minus 7.1% year-on-year degrowth. And Sustainability, which ended up at $204.1 million and it grew by 45.6% year-on-year. New growth areas at $124.8 million. And on the full year basis has shown a growth of 1.5% resulting into 12.6% year-on-year growth.

For the full year order intake, we ended up at $902.2 billion, which has shown 25.2% year-on-year growth and a like-to-like basis, this is about 15% growth. And for the full year of fiscal 24, we have closed to 28 large deals with the total contract potential of about $435.4 million. So, this is one of the key achievements that we had, and we continue to make progress on the large deals, and we hope we'll continue to build on the momentum.

And moving to look at the business performance and outlook. As all of you are aware about the macro and challenges due to the high interest rates and geopolitical uncertainty and the global demand slowing down, we do feel ER&D services is resilient and it is likely to see an increasing demand with smart and connectivity ecosystem, software platformization, digitalization and sustainability as the modern themes. And we do believe some of the initiatives that we started working on, will start yielding results even in this typical environment.

We continue to see momentum in Aerospace led by manufacturing in the aftermarket more than the engineering part. And we also see increased spend in defense as well as our urban air mobility and digitization continue to be one of the key topics. And we also talked about some of the deals that we closed in Q4.

Connectivity, and we had a rough start for the last 12 months, and we hope it will start getting back to growth in the next financial year and led by RDOF and BEAD. We do start seeing, as Prabhakar indicated, some of the wins that we started seeing late Q4 will start playing out in Q1 and Q2 of fiscal 25. And we continue to see from the connectivity standpoint, the software-defined networking and autonomous network operations and premium customer experience are the areas customers are willing to spend. I think there's definitely a lot of cost out programs many of the telecom operators are focused on.

Sustainability, which has done well for the last 8 quarters, we continue to see a momentum among energy transition and carbon capture and alternate energy sources and decarbonization asset management. They continue to be the key focus areas of growth, and we continue to strengthen our ability to address the sustainability opportunity not only from US and Europe, we are also expanding into Middle East, and we will talk about some of them in the latter part of the discussion.

New growth areas and Automotive has done well for this year with the software-defined vehicle and connected platforms and semiconductor, which is likely to see a growth due to high-performance computing and AI-led data center and cloud. Healthcare is likely to see a growth from patient monitoring customer experience and connected devices.

With that, happy to share some of the deals that we won, and I just want to pick up on few things. And as part of what we've started investing on the technology solutions and advisory group, which leads with customer workshops, helping the customers to define the road map and some of the key wins that I would like to highlight include all the autonomous systems and process, design and development of perception system to increase safety of operator and machine through various set of sensors that will avoid any pollution and can be alert.

And we also are building the aftermarket kits that can be added on to retrofit of the existing products as well. And I'm just moving on due to lack of time, and I'll just pick up something about the next-gen connectivity and where we talked about next-generation IoT gateway and edge-computing capabilities using LoRaWAN technology. We have also built a platform which is AI driven rule-based algorithm to detect anomalies in the network and configure the network elements for zero touch configuration trips.

And on the generative AI part, which is one of the key areas of investment over the last 12 months, and we started seeing some of the interest from customers, using generative AI to help them to improve the collaboration from entering to all other functions and also streamlining some of the processes impact the organization as well as helping them with vision-based LLMs to comprehend the image and drawing content. And some of the areas that we are starting to see definitely looks very interesting and generative AI will have a role to play in engineering, and we are excited about what we have been able to do in the last few months.

With that, I just want to conclude by saying that what are we looking in for fiscal '25. We understand the challenges that are seen from the industry, and we are confident that we should be in a high single-digit DET revenue growth year-on-year in constant currency terms, and we expect the margins to be in the range of 16% for the financial year 25.

With that -- and thank you for your time. I'll hand it over to the Operator for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sulabh Govila from Morgan Stanley.

Sulabh Govila: My first question is with respect to the revenue guidance. So, I just wanted to understand how should we think about this guidance panning out across verticals with respect to which verticals would you expect to do the heavy lifting for the year? And which verticals would relatively lag. So, whatever is the current expectation as per the guidance?

Karthikeyan Natarajan: Yes. As we talked about, we continue to see momentum from sustainability and aerospace, semiconductors, automotive, and we do expect connectivity to come back to the growth terms during this year as compared to what we have seen in fiscal 24, almost in the same order.

Sulabh Govila: Okay. Understood. And with respect to the quarterly trajectory of this guidance panning out, should we think about this year to be a back-ended growth year with respect to this guidance? Or you think that the growth would be equally panned out across quarters?

Karthikeyan Natarajan: We do expect some softness in the early part of the year, and it depends on how things pan out, and we should probably do well for the rest of the year. And that's the current view that we are carrying.

Sulabh Govila: Understood. And given that this year is a high single-digit growth year as of now, how should we think about the medium-term guidance that we had provided on the Analyst Day, which is from a 3- to 5-year perspective? Does that also undergo a change or that remains intact as of now?

Karthikeyan Natarajan: No, we do feel that I think based on what we heard from our top 40 customers, and they are going through their own challenges, and they do see this is going to be a potential growth segment as we've envisaged earlier. I do feel that our medium- to long-term growth prospects are absolutely intact. And we do expect with demographic changes that are seen in Europe and this is going to be a great opportunity for a company like us, having invested in the last 2 years with a lot of capabilities in Europe. And we've started doubling down in Japan. And as we talked about our entry into Middle East, and some of these areas will continue to see momentum. And when we talked about energy transition, we will expect while there is significant investment growing from Europe and the U.S., we do feel that Middle East could be another potential growth opportunity that we are planning to invest on. So, we do see that for the medium to long term, the growth aspects are absolutely intact.

Sulabh Govila: Understood. And then last on margins. I just wanted to understand what are the areas of investments for growth that we called out in our opening remarks, which we will be investing from incremental margins that we get this year?

Prabhakar Atla: Sulabh, I'll take this question. As in relation to what Karthik said about your earlier question on the medium-term trajectory. In our view, the underlying drivers for the ER&D space remain very much intact. Whether it is ER&D spend growing year-on-year, if the addressable market growing year-on-year, the partnership propensity increasing year-on-year or the technology evolution driving the pace of ER&D acceleration. Those underlying drivers and therefore the medium-term trajectory we see completely remains intact as we have previously spoken. Within that, the investments that we have made in the past in the technology space to accelerate the margin and revenue trajectory is where we will continue to invest in FY25. We're talking basically organic investment in technology that will accelerate our revenue growth and the margin trajectory. And this is what we've showcased also during the Investor Day as a part of the experience center visit that we have demonstrated.

Moderator: The next question is from the line of Kawaljeet Saluja from Kotak Securities.

Kawaljeet Saluja: My question is for Karthik. Karthik, the back-ended guidance never works for the industry, the environment is challenging. You have missed your guidance perhaps possibly in three of the last four quarters. I mean, what gives you the comfort of going out and giving such a guidance which is back-ended all over again?

Karthikeyan Natarajan: Kawaljeet, I think we also see that many of the conservations that we have with our customers, and they do see some of the deferrals that are happening or getting started, which happened from Q2 to Q3 in Q4 and some of the deferrals that they are asking us to move through Q1, Q2, we hope some of them will still materialize. We do see that it becomes too difficult to start getting the specific quarter guidance right because of the kind of challenges that we have seen from projects getting moved to the right and getting pulled back. But we do see that the trajectory for the next year will definitely be a growth year and based on the momentum that we have seen in few of the segments and the lack of it from other segments.

Kawaljeet Saluja: Karthik, correct me if I'm wrong, but I thought that normally in this industry, your normally -- visibility is the highest for the immediate quarter and the visibility reduces as you progress through the course of the year. What you're indicating is possibly quarterly trajectory, which is uncertain. So, if quarterly trajectory is uncertain, how does one give an annual guidance here?

Karthikeyan Natarajan: Yes. I think this is definitely a challenge that we have deliberated internally with our teams, Kawaljeet, and what we believe is something that we'll have to work towards during the first half of this year to ensure that we are able to define it as we move forward. And that's the reason why we want to keep it at a broad level instead of a specific number.

Kawaljeet Saluja: Okay. And what are the underlying assumptions that you have made? Given your experience on the guidance last year, what are the underlying assumptions and fine-tuning that you have done to ensure that you'll end up with a better outcome on your guidance this year related to last year?

Krishna Bodanapu: Sorry, Kawaljeet, before Karthik answers, that I just want to also say that what you addressed is very right. I mean, how do we get to that number and that guidance. And the Board also had those questions. And therefore, we did quite a bit of a deep dive internally to look at how the buildup happens. Because what can happen in Q4, really, nobody really knows, but then there are a certain set of assumptions. And we got to the second degree of those assumptions to say what are the orders that we need to win, what is the probability. And therefore, can we come up, can we commit to a number. Of course, it's a bit of a range. but can we commit to a number based on the buildup.

So, I think your question is very valid. And also, I just want to highlight that the Board also shared that concern at the budget point and therefore, we went into quite a bit of deep dive both with the management team and then presented the summary to the Board to say how does it add up. Because, of course, to your point, there's absolutely no 100% confidence in this industry or for that matter any industry, but the confidence comes from the fact that we've done a bottom-up rather than just an aspirational top down. I just wanted to leave it at that because I thought that was a good question, but since we also had it and we addressed it.

Kawaljeet Saluja: That's fair. I just wanted to get -- I mean, where in the assumptions that you have made this year and given your experience last year, how is the process of guidance and the underlying assumption is different there? Sorry Karthik, I interrupted you, go ahead, yes.

Karthikeyan Natarajan: Kawaljeet, I'll just add to what Krishna said. So, if you look at last 12 months, where did we miss our forecast versus the initial guidance. But essentially, we did not anticipate the drop in Connectivity and Rail. I think those are the 2 surprises that we saw during the year. And that's one of the key inputs that we have taken into account when we really wanted to plan for fiscal 25. And again, we tried to map out based on order backlog, order intake, the pattern of what customers do. But I think it's the best estimate at this point of time is where we have arrived at.

Prabhakar Atla: Kawaljeet, if I may step in. Firstly, thank you for the candid question. I'll just add a few notes from my end to what Krishna and Karthik also mentioned. To your question on Q1, there are 2 things that we are going to watch out, the flattishness of Aerospace in Q4 was essentially because we won a lot of new business, lot of new contracts. Now the supply that we are building has to catch up with the demand that we have raised. And that will take for us at least 1 more quarter before we see how this transfers for us to translate to revenue. Similarly, all the contracts we won in the end of Q4 for communication, we have to execute them in Q1 and to realize what is the growth that we can see in Q1 compared to Q4.

Those are the variables as we're concerned for Q1. But if you take a step back and the good question you had on the full year guidance, there are 3 things in our mind. Firstly, if you see the order book we had for FY24 is fairly strong. We closed FY24 with the order intake, which is 15% above the previous year. The order book grew by 15% year-on-year. That's a positive time as the one might say. But that said, you also rightly pointed out a key learning there in FY24 is the degree of macro uncertainty that we are handling. When you combine that with the 2 topics I mentioned before about Aero supply catch-up and Comms watch for Q1, that's the second thing I'd like to say. And therefore, thirdly, we've taken a cautious and pragmatic approach for the outlook, and we will go through this for Q1 and will come back at the end of Q2 and make an update to the trajectory as we see things progress.

Kawaljeet Saluja: Yes. On that Prabhakar, is the book-to-bill ratio different or basically the ACV number of the order book different in FY24 relative to the last year. So, when you're saying 15% growth in order book, is it really like-to-like? Or is there a change in the tenure of the deals that you have signed in FY24?

Prabhakar Atla: Okay. This number is like-to-like, Kawaljeet. An interesting development that we see, and Karthik talked about spend being moved around in the quarter. We see a propensity of customers cutting smaller PO’s for shorter term as compared to longer PO’s for a longer term. So therefore, in a way if you were to look at it from a pragmatic perspective in a way, the order book we have in hand should be more executable in the short term than in the previous year. But that's it, I also go back on earlier comment on the degree of macro uncertainty which can move things a bit around. Therefore, the cautious pragmatism. So, the answer to your question is like-to-like but we see much more shorter-term PO’s right now compared to the past.

Moderator: The next question is from the line of Mohit Jain from Anand Rathi.

Mohit Jain: Sir, just one question on Transportation, like we were hoping for some growth in 4Q. So, what happened here and why the 6 months of flattishness in that particular vertical, while we have won few large deals.

Karthikeyan Natarajan: I think this is -- again, we still have not hit the bottom on rail. I think that is still the challenge that we are dealing with when we talk about transport, and we do continue to see the momentum as far as Aerospace is concerned and also add to what Prabhakar mentioned, we've seen seven consecutive quarters of growth in Aerospace. There is definitely a breather and we do hope this starts getting back to the growth trajectory in the latter part.

Mohit Jain: So now for transportation, we are building in Q4, Q1, Q2 more or less range bound and then look at it from a third quarter standpoint?

Karthikeyan Natarajan: We are not saying specific on how the Q1, Q2 will pan out, and we do see there could be continuous growth. There are 2-3 issues that I want to highlight that the Aerospace industry is.

What we have seen from 2019, I think the demand for air travel has come back and the customer's ability to cope up with in terms of manufacturing components and products as well as the regulatory to service. I think there is a huge demand that's piling up. And the supply chain issues have not been fully rationalized while maybe I would say, 85-90% of the issues have settled, but there are still issues on the supply chain and constraints on them to produce is more than the demand side and which is definitely good news. So, we do expect the growth will be led by manufacturing, engineering and aftermarket and we've talked about one of the large deals, which is won on the digital aftermarket side.

So, we do expect the aftermarket MRO growth is robust for a few more years, and manufacturing has to cope up. If go to most of the aerospace customers today, the biggest challenge is they have more orders than what can they fulfil it. Still look for solutions to improve the productivity, their ability to digitize the existing process and ability to get better visibility on supply chains. I think those issues are still hitting them and they need help in all those areas.

Mohit Jain: And 4Q decline is purely on the Rail side?

Karthikeyan Natarajan: Yes.

Mohit Jain: Okay. Last is on order backlog. We had this Y-o-Y decline despite signing these 2 orders. So why would we have a Y-o-Y decline in order intake?

Karthikeyan Natarajan: Yes. The order intake is a confirmed purchase order. And when we talk about large deals, they are total contract potential, all of them have to get converted into purchase orders. They will get converted in the due course of the year end.

Mohit Jain: I was referring to the like-to-like Y-o-Y number that is given minus 6 for 4Q 2024 on order intake.

Karthikeyan Natarajan: Yes. So, I think Q4, like what Prabhakar said, interestingly, when we looked at Q4 of fiscal 23, we saw at least about 5 deals of about $40 million, which may be beyond 12 -18 months, 24 months TCP. The customers were willing to give their purchase order and the customers are cutting short in terms of the POs in Q4 of fiscal '24, which is an interesting observation that we saw. And we hope this is only an aberration and it seems to get corrected as we move into the year.

Mohit Jain: And the two deals that you have announced, TCV is already included in 4Q number?

Karthikeyan Natarajan: Not, yes. Let me put it this way. The order intake of INR227 million we are talking about, they do not include the TCP of INR197 million we have reported as part of the large deals. Some part of this INR197 million of large deal, if it would have come as a purchase order could be included in that.

Krishna Bodanapu: Look at it as a change in portfolio, right? Because the growth is coming from varying locations. So we also have to look at it in the conjunction that there is a change in our portfolio, I think like-for-like, because some of the acquisitions are going quite well, and that it was a sort of deliberate choice to go down the path of acquiring because those were the growth areas that will make up to some of the softness that we're seeing in other areas, like Rail or Communication.

So, I think you've to see it in that conjunction and the fact that it's gone up 7.1% year-on-year is a good sign.

Moderator: The next question is from the line of Vibhor Singhal from Nuvama Equity.

Vibhor Singhal: Sir, just a couple of clarifications from my side. Just -- I couldn't really get the math of this deal flow that you mentioned. So, in the quarterly deal flow, so you're saying part of the INR197 million is included and part is not included?

Karthikeyan Natarajan: So Vibhor, this INR197 million is the total contract potential that we signed as large deals for Q4 fiscal 24. Out of that, part of the purchase orders that we would have received is included in the order intake number.

Vibhor Singhal: Okay. And if this would be a recurring in the sense you've included that in the purchase order I mean, in the deal flow for this number?

Karthikeyan Natarajan: Sorry, maybe about, I would say, roughly about INR30 million would have been included in the order intake and the remaining INR160 million would be delivered as part of the purchase order.

Vibhor Singhal: Whatever the period of the deal is?

Karthikeyan Natarajan: Yes.

Vibhor Singhal: Got that. And also, just coming to a little bit more on the Transport division, both Aero and Rail. In Aero, you mentioned that you're expecting a good demand from air travel coming back and supply chain issues also not having rationalized. So, in nutshell, do we expect Aero to be a growth vertical in FY25. I'm not looking for a number, but just the direction. And similarly, in terms of the Rail, has the issues with the top client been sorted or when do we expect that Railways vertical could actually bottom out and we could see that going into the green again.

Karthikeyan Natarajan: We continue to hold the view that Aerospace should be a growth engine for us even in fiscal 25. And we also expect hopefully that Rail bottoms out sometime in this year and lot of order book that is built in by the customers is definitely being taken into account. And we also feel it's a matter of time that they start engaging with executing on them. I also want to call out one of the aspects that we have heard from many of our customers over the last 2 years, especially with the political and geopolitical uncertainty, a lot of money that is getting moved towards defense to ensure that the security is being the priority as compared to infrastructure. I think some of that should probably ease out maybe later part of this year and hopefully that should start getting us some growth. But having said that, we have also seen most of the rail degrowth is also led by what we have seen is offshoring. And most of the on-site work has moved to offshore. And that is one of the reasons where we have seen that drop in the revenue volumes.

Vibhor Singhal: Got it. Just maybe one bit more on the rail segment, again. Net on -- I mean, excluding the top two clients which merge together and which are basically responsible for the large part of the degrowth, the remaining vertical, is that growing? Or is that also seeing challenges from the on-site to offshore transfer that we are seeing.

Karthikeyan Natarajan: So, there is definitely a significant money that needs to be spent in terms of credit signalling in Europe. I think that's going to be a massive investment that is coming up. Only issue is it is not clearly defined yet, when is it likely to start, when is it likely to end. And some of the infrastructure that we heard from customers are 30 to 40 plus years old, and they definitely need modernization and maintaining uptime and making sure they're able to deliver on-time performance has taken a hit. And this probably should get fixed in the next few years for sure. And we will see some of this growth coming back maybe in the next few quarters as we anticipate.

Moderator: The next question is from the line of Vihang Subramanian from Zaaba Capital.

Vihang Subramanian: So, I think our constant guidance has previously been 10% to 20%. And I think recently, you confidently even said that it wouldn't be below 10% for the next few years. So, I'm just trying to understand what has really changed here in 4 weeks? And which segment has led to this change in view?

Karthikeyan Natarajan: No I think we've talked about -- we have seen maybe 20-25 customers in the last 3-4 months that we have engaged have kept moving things around in terms of how they really want to prioritize certain projects compared to the list of projects we are supporting them and moving some of the projects to the right, or cancelling a few of them. And I think this is part of the portfolio that we are trying to prioritize. We can understand where they come from and some of our customers, the top 40 customers that we work with, we have seen that they reduced their guidance for the next 12 months, given the macro uncertainty they are likely to face. That is another leading indicator, which gives us the view saying that while they do see growth coming probably in the next financial year and some of the issues around -- uncertainties around the elections and -- plus some of the interest rate reduction, that is expected at this time this year, I think they were trying to really time it maybe later part of this year on some of the investment plans. So, I think those are the indications that we have from our customers, and that's the basis on which we are trying to look at. I think the same question was asked by the Board to Krishna. How do you make sure that we still keep our medium to long-term growth intact? And we still hope that we should get back into that range. And I think what we have seen in the last 3 to 6 months is definitely something that we have not seen in the last 2-2.5 years. So, it is definitely a surprise for us, and we do hope things get better as we start getting in.

Prabhakar Atla: Let me also add to that, Subramanian, thank you for the question. I'll just say three things. If we dive back to the commentary we've been making. Our view was that and remains that the four themes that we have picked up, transportation, sustainability, connectivity to new growth areas that is seen, have the potential to grow double digit over a period of 3 to 5 years. And that still remains very strong in terms of the potential that we see and the indicators that we see.

The second thing we also cited that an annual number, to extract from these multiple themes an annual number will be in the context today in which we operate, which is where we currently are. The third thing I would say, at the expense of repeating what I mentioned call earlier, my apologies for that, is that order book for us is very strong for FY24. But at the same time, we have learnings from FY24 in terms of the degree of macro uncertainty and we also have to watch Aerospace and communications for Q1. And therefore, we're taking a cautious and pragmatic approach as we currently guide revenue for FY25. And as we execute through Q1 and Q2, we will come back at the end of Q2 and make an update as we see it appropriate contextually for the current year. So, in summary to your first question, we are extremely bullish on the four themes that we have picked up in the medium term in terms of what we see around, what we hear and what we're also seeing in the order book.

Vihang Subramanian: Understood. And just a follow-up on that. I think the two large deals, which you mentioned, is that included in the guidance?

Karthikeyan Natarajan: Part of it is included in that and how it ramps up, we will probably evolve as the program ramps up.

Prabhakar Atla: The degree where we had the order intake available is baked in, Subramanian. To the degree where the order is still not part of the TCP that is not baked in. To Karthik's earlier clarification, we won a number of large deals in Q4. Some of them have also come with purchase orders. So, the degree we have a PO we have baked into the options. Where we don't have a PO, we haven't baked in the options.

Vihang Subramanian: Given this kind of macro uncertainty, I don't really understand why are we even guiding for something in the range of like 20% and so on, right? Like I mean, I think 10% was supposed to be floor that we had previously guided to the Street, right? And now it seems like the floor is out of the picture, right? So just to add to that, the last question I have is if you have done 2% this quarter, what gives you the confidence of even achieving high single-digit here?

Prabhakar Atla: So, I'll take that, Subramanian. I think you are referring to the guidance that was provided in April of 2023, which was updated at the end of the calendar year, that is the first thing. The second thing is our confidence comes from 2 things, I'd say. So, the degree that we can have a confidence in the world we are living today, our confidence comes from 2 things. One is a strong order book, especially the key wins we had in Q4 for Aerospace, which is a growing sector for us. And the second thing is we area also present in all the right segments, which are poised for growth in the medium and long term. The 4 segments I spoke about before. These 2 are the elements on which our current view of the FY25 outlook is based on.

Krishna Bodanapu: And I think if I also may add to that the outlook is really based on what we see as at the point in time, right? Because we also had a lot of debates around give guidance or not and unfortunately, there was too many different schools of thoughts. And again, we're trying to give you a view and say, more than a guidance, it's the view of how we see the world right now. I mean that we're happy to be transparent to that degree to say that's what we see in the world right now or that's what we see in our customer world right now. So again, if you look at the medium to long term that Prabhakar talked about, we are just as confident in our business as we were 12 months ago or 24 months ago. But the reality of how the purchase orders come, when it comes, how it comes change, so if I -- again, it might not help with the immediate case, but I'd say if I were to venture again and say, over a 5-year period, would we deliver that double-digit number? Absolutely. There's no doubt in my mind that we will. It is just the nature of the business where you are going to have ups and downs. So, we're just trying to give you a view of what we see at a point in time. And of course, we expect that you will use your judgment on top of it, because this is what we see at this point in time.

Moderator: The next question is from the line of Abhishek Shindadkar from InCred Capital.

Abhishek Shindadkar: Sir, can you just quantify or break the growth between organic and inorganic for 24 as a whole. That is first. And second, to Prabhakar when you mentioned that we'll revisit investments, are we referring to M&A at this point in time.

Prabhakar Atla: Abhishek, to your second question first. No, we're not referring to investments and M&A. We're talking about organic investments we make in technology that will accelerate the revenue and the margin trajectory we find. So, this is all organic, the first thing.

Abhishek Shindadkar: My first question regarding the growth, if you can break that between organic and the inorganic component.

Prabhakar Atla: So, in this case, I have to say, very fortunately, the integration of all the entities that we acquired is completely complete. That well integrated part is Cyient ecosystem. Even for FY24, a number of deals that we won were together, both in terms of order intake and revenue. So, we don't have nor we should actually have any separate view of organic versus inorganic component, integration is complete. And if we have them, I personally believe as a finance person, we haven't achieved the objective of the acquisition. So, I would like to see it also as much as anybody else. But fortunately, for us, it is all well integrated and we're operating as one machine right now.

Moderator: Next question is from the line of Nitin Sharma from MC Pro Research.

Nitin Sharma: First of all, there seems to be some client loss since 3Q in a $1 million and $5 million bucket. Which vertical this belongs to?

Karthikeyan Natarajan: I think we have looked at this data, I think there are about -- it's more of a seasonal variation we look at from the last 12 months, and there are a few customers who fell to 900k -plus bucket and that's the reason why you're seeing the drop. And some of the other buckets have moved from one to another. So that's a shift that you'll see there.

Nitin Sharma: Can you please explain what led to decline in the headcount in Q4? And for how one should see it in FY25 in terms of headcount addition?

Karthikeyan Natarajan: Yes. So, I think we also looked at based on where the demand is, and we are trying to bring in as close to the agile ramp up as possible. Also, some of the attrition that we did not replace in Q4 and is the reason why you see headcount reduction and also, we have completed our performance management process as of Jan. And we also have taken some action on poor performers. I think all this added up to what you see as a negative headcount. We do expect that we should start really getting into the growth trajectory during FY25.

Moderator: The next question is from the line of Bhavik Mehta from JP Morgan.

Bhavik Mehta: Just one question going back to the guidance. I think Prabhakar, you said that you're taking a cautious view on the high single-digit guidance what you have provided right now. But I just want to understand what are the risks that this high single-digit goes to the mid-single digit over the next 3 to 6 months. So, what are the verticals that you see things don't play out as per your expectations currently?

Prabhakar Atla: Bhavik, thank you for the question. Yes, you're right. We are being very cautious and pragmatic about the business learning we had in FY24 as we provide the outlook for FY25. We would like to watch out for Q1 in terms of how these 2 segments we have, basically Aerospace in terms of the supply catching up with demand and connectivity in terms of translating orders wins we had in Q4 into revenue in Q1. I think then we will be able to look at a much more clearer picture for the full year. Those 2 are the variables that we are tracking right now, the two important variables.

Moderator: The next question is from the line of Suraj Malu from Catamaran.

Suraj Malu: Sir, I just wanted to understand when you mentioned like-for-like degrowth in the order intake. Can you just help me understand what do you mean by like for like?

Karthikeyan Natarajan: Yes. Suraj, when we looked at Q4 of fiscal '23, we have not established a clear system of the order intake from the acquired entity, and that was still coming in based on revenue equal to order intake versus some of the assumption that was made. So, when we were to really neutralize for it. I think that's where we kind of came up with this like-to-like model. It is still an estimate, but we do feel that as we start rolling through this year, we'll have a better view of a single number, which is integrated with acquisition as well as the organic part.

Moderator: Ladies and gentlemen, that was the last question for the question-and-answer session today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments.

Krishna Bodanapu: Thank you very much. Thank you, everyone, for your time and being on the call. While Q4 was a tad bit lower than what we expected, as we explained, we're quite confident on what the financial year holds for us. We take your feedback on the ask ahead of us and how we also provide the view going forward, which, of course, we will be incorporating that. But thank you very much for the support. Thank you very much for the questions. Of course, if there's anything else, please do reach out to Mayur or Vish and we can provide an answer. But with that, thank you very much. Have a good day and thank you for the support.

Moderator: Thank you. Ladies and gentlemen, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
